



Investment Office

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December 17, 2007

AGENDA ITEM 10c

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Consultant Conflict of Interest Protocol Update
- II. PROGRAM:** Administrative Services Unit
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

In accordance with the June 2005 approved CalPERS Consultant Conflict of Interest Protocol (Protocol), CalPERS Investment Consultants are required to disclose on an ongoing basis any circumstances that may create actual, potential, or perceived conflicts of interest.

The Protocol also requires the Investment Office Staff to provide a summary report of disclosable interests by year's end to the Investment Committee. The report includes the types of disclosable interests disclosed by CalPERS Investment Consultants from the prior year, any developments or issues, and the appropriate actions taken by Staff.

In compliance with the Protocol, Staff monitors each consultant's compliance through its internal conflict of interest tracking process. At least once a year, Staff will review with each consultant all disclosable interests, examine, and discuss the ongoing and cumulative effect of each disclosure.

For the fiscal year ending June 30, 2007, only one consultant filed a disclosure under the Protocol. A real estate special project consultant found the following three disclosable items to report:

- 1) After completing a due diligence for a CalPERS investment fund, the consultant was asked directly by the fund managers to perform additional due diligence for a new investment by CalPERS. The consultant declined to move forward.

- 2) The consultant disclosed a relationship to perform a due diligence underwriting and lease abstracting for one of the managers in the real estate program. After discussing the transaction with the program's Portfolio Manager and its Contract Manager, it was concluded no conflict of interest existed. The Legal Office was in concurrence.
- 3) Another group within the consultant's company was asked to bid on some work for one of CalPERS investment managers. The consultant disclosed there has been no engagement.

Additionally, as reported last year, the Board's primary pension consultant continues to provide ongoing disclosure of its relationships to external managers as a matter of course to the Investment Committee with agenda items on external manager due diligence, selection, and reviews.

The next annual status report will be presented at the December 2008 Investment Committee.

V. STRATEGIC PLAN:

Goal II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.

Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

There are no costs associated with this agenda item.

Matthew Flynn
Division Chief

Anne Stausboll
Chief Operating Investment Officer

Russell Read
Chief Investment Officer

